

IROC Systems Corp.
Consolidated Financial Statements
December 31, 2001 and 2000

To the Shareholders of IROC Systems Corp.

Management has responsibility for preparing the accompanying consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained.

The Board of Directors and the Audit committee are composed of Directors some of whom are neither management nor employees of IROC Systems Corp. The Audit Committee is appointed by the Board of Directors to review the consolidated financial statements in detail with management and to report to the Board prior to their approval of the consolidated financial statements.

External auditors are appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, management and the audit committee to discuss their audit findings.

(signed) "Thomas Alford"

Thomas Alford
President

(signed) "Gayle Morrical"

Gayle Morrical, CGA
Controller

March 15, 2002

To the Shareholders of IROC Systems Corp.

We have audited the consolidated balance sheets of IROC Systems Corp. as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for the year ended December 31, 2001 and for the nine months ended December 31, 2000. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and cash flows for the year ended December 31, 2001 and for the nine months ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Red Deer, Alberta
March 15, 2002

Chartered Accountants

IROC Systems Corp.
Consolidated Balance Sheets
As at December 31

	<i>2001</i>	<i>2000</i>
Assets		
Current assets		
Cash	185	28,814
Marketable securities (Note 3)	6,758	903,761
Accounts receivable	717,491	254,503
Investment in partnership (Note 7)	68,354	-
Income taxes recoverable	-	90,374
Inventory	20,793	3,431
Prepaid expenses and deposits	72,580	266,749
Current portion of lease receivable	10,800	14,400
Future income taxes (Note 12)	28,000	28,600
	924,961	1,590,632
Capital assets (Note 4)	3,538,198	1,579,198
Lease receivable (Note 5)	-	12,000
Goodwill (Note 6)	-	53,000
Prepaid lease costs (Note 11)	77,500	-
Future income taxes (Note 12)	144,000	94,000
	4,684,659	3,328,830
Liabilities		
Current		
Bank indebtedness (Note 8)	226,447	230,000
Accounts payable	1,016,750	241,441
Payable to shareholders	-	4,484
Current portion of long term debt (Note 9)	70,020	13,848
Current portion of obligations under capital lease (Note 10)	104,276	21,697
	1,417,493	511,470
Long term debt (Note 9)	233,300	28,784
Obligations under capital lease (Note 10)	358,197	90,225
	2,008,990	630,479
Shareholders' equity		
Share capital (Note 11)	2,255,190	2,142,042
Retained earnings	420,479	556,309
	2,675,669	2,698,351
	4,684,659	3,328,830

On behalf of the Board:

(signed) "Thomas M. Alford" Director

(signed) "Brian D. Neeland" Director

IROC Systems Corp.
Consolidated Statements of Operations and Retained Earnings
For the periods ended December 31

	<i>12 Months 2001</i>	<i>9 Months 2000</i>
Revenue		
Consulting and equipment rental	2,982,278	622,701
Equipment sales	391,211	186,538
	3,373,489	809,239
Direct costs (Schedule 1)	2,143,869	517,112
	1,229,620	292,127
Contribution margin		
	1,392,188	382,283
Research and development		
Research and development expenses	-	70,825
Research and development tax credits recoverable	-	(12,485)
	-	58,340
Loss from continuing operations	(162,568)	(148,496)
Other income (expense)		
Investment income	18,157	15,583
Gain on disposal of capital assets	94,007	-
Equity in loss of partnership	(47,282)	-
	64,882	15,583
Loss before income taxes and discontinued operations	(97,686)	(132,913)
Income taxes recoverable (Note 12)	(29,042)	(43,915)
Loss before discontinued operations	(68,644)	(88,998)
Discontinued operations (Note 13)	(67,186)	(32,259)
Net loss	(135,830)	(121,257)
Retained earnings, beginning of period	556,309	677,566
Retained earning, end of period	420,479	556,309
Loss per share (Note 14)		
Basic:		
-loss before discontinued operations	\$(0.007)	\$(0.012)
-net loss	\$(0.013)	\$(0.016)

IROC Systems Corp.
Consolidated Statements of Cash Flows
For the periods ended December 31

	<i>12 Months 2001</i>	<i>9 Months 2000</i>
Cash provided by (used for) the following activities		
Operating		
Net loss from continuing operations	(68,644)	(88,998)
Items not affecting cash:		
Amortization -capital assets	523,512	122,034
-goodwill	-	7,000
-assets under capital lease	156,340	38,453
Future income taxes	(47,077)	(60,000)
Equity in loss of partnership	47,282	-
Gain on sale of investments	(1,158)	-
Gain on sale of capital assets	(94,007)	-
Net changes in working capital	(8,262)	(44,974)
<hr/>		
Cash provided by (used for) continuing operations	507,986	(26,485)
Cash provided by (used for) discontinued operations <i>(Note 13)</i>	(24,196)	4,007
	483,790	(22,478)
<hr/>		
Financing		
Bank loan advances (repayments)	(3,553)	230,000
Advances (repayment) of long term debt	260,688	(11,842)
Repayment of obligations under capital lease	(37,481)	-
Construction financing included in accounts payable	662,765	-
Advances to shareholders	(4,484)	(10,107)
Issue of shares (net of share issue costs)	9,325	301,234
	887,260	509,285
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Investing		
Purchase of and deposits on capital assets	(2,717,742)	(1,347,181)
Proceeds on sale of capital assets	539,938	-
Advances to partnership	(115,539)	-
Cash acquired from acquisition of Advanced Sensing Systems Inc.	-	200,000
Purchase of goodwill	-	(60,000)
Purchase of shares of IROC Systems (NWT) Corp.	(49)	-
Contribution to partnership	(48)	-
	(2,293,440)	(1,207,181)
<hr/>		
Net decrease in cash	(922,390)	(720,374)
Cash and cash equivalents beginning of period	922,575	1,642,949
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Cash and cash equivalents, end of period <i>(Note 15)</i>	185	922,575

Statements of cash flows *(Note 15)*

1. Incorporation, nature of business, basis of presentation, and continued operations

a) Incorporation and amalgamation

IROC Systems Corp. (the "Corporation") was formed on December 1, 2000 upon the amalgamation of IROC H2S Consulting Ltd. ("IROC") and IROC Systems Corp., formerly Advanced Sensing Systems Inc. ("Advanced"). The Corporation is traded on Tier One of the Canadian Venture Exchange under the symbol "IRC".

IROC H2S Consulting Ltd. was incorporated March 28, 1985 under the Alberta Business Corporations Act. On November 30, 2000, all of the issued and outstanding shares and warrants of IROC were acquired by Advanced Sensing Systems Inc., an Alberta Corporation, in exchange for 8,526,000 shares and 1,563,000 warrants of Advanced. At the time, Advanced was a Junior Capital Pool corporation as defined in the Alberta Securities Commission Rule 46-501. Advanced subsequently changed its name to IROC Systems Corp.

Following this acquisition, which constituted Advanced's qualifying transaction, the former shareholders of IROC held approximately 89% of the issued and outstanding shares of Advanced. As a result of the final share ownership structure, the transaction was accounted for as a reverse takeover using the purchase method with IROC being the acquiring company. In accordance with reverse takeover accounting, these financial statements reflect a continuation of IROC in that the historical financial statements prior to the acquisition are those of IROC. For accounting purposes, the fair value of the consideration given by IROC to acquire Advanced was \$200,000. The purchase price was allocated to Advanced's net assets, consisting only of cash.

b) Nature of business

IROC Systems Corp. is an Alberta based fully integrated safety services company providing downwind air quality monitoring and related safety services to the energy sector. The Corporation has developed key technologies to address remote air quality monitoring and has recently expanded operations to provide full safety services for drilling, completion, production and plant shut down/turn-around works.

c) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its wholly owned subsidiary Cori Monitoring Systems Inc. All inter-company accounts and transactions have been eliminated.

d) Continued operations

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and discharge of liabilities in the ordinary course of business. The Corporation has incurred operating losses in the last two years, and at December 31, 2001, has a working capital deficiency of \$492,532, resulting in non-compliance with certain financial debt covenants (Note 9). Management has made significant changes to address these issues including discontinuing unprofitable non-core operations (Note 13) and selling land and building subsequent to the year end (Note 18). As of January 31, 2002, the Corporation was no longer in violation of any of its debt covenants.

2. Accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Revenue recognition

Revenue is recognized as services are rendered and as equipment is provided based upon agreed daily, hourly or job rates.

2. Accounting policies (continued)

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by using the first in, first out method.

Capital assets

Capital assets are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of the assets over their estimated useful lives.

	Method	Rate
Building	declining balance	4%
Computer hardware	declining balance	30%
Computer software	declining balance	100%
Equipment	declining balance	20%
Fence	declining balance	20%
Leaseholds	straight line	20%
Trailers	declining balance	30%
Vehicles	declining balance	30%

Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital lease are amortized on the declining balance basis over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Goodwill

Goodwill, representing the excess of purchase price over the fair market value of net tangible assets acquired, is amortized using the straight-line method over five years based on management's best estimate of the related periods of future earnings.

On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration events that may have impaired the fair value. Goodwill is written down to fair value when declines in value are considered to be other than temporary based on expected undiscounted future cash flows of the related operations. During the year the Corporation discontinued the operations of its trucking and hotshot services and as a result the related goodwill was written off in the year. (Note 13).

Marketable securities

Marketable securities are valued at the lower of cost and market value.

Prepaid lease costs

Prepaid lease costs represent the value of shares issued in exchange for a reduction in lease payments required on the first five years of a property lease held by the Corporation. The lease costs are amortized using the straight-line method over five years.

2. Accounting policies (continued)

Joint venture

During the year the Corporation held a 50% interest in the joint venture IROC/Safety Hawk Industrial Services Inc. The joint venture commenced March 1, 2001 and terminated October 31, 2001. Investments in joint ventures are accounted for using the proportionate consolidation method. The corporation's pro-rata share of the assets, liabilities, revenues and expenses of the joint venture have been combined on a line-by-line basis with similar items of the Corporation.

Investments

Investments in entities subject to significant influence (those entities in which interests ranging from 20% to 50% are held) are recorded using the equity basis of accounting. Accordingly, the investment is recorded at acquisition cost and is increased by the proportionate share of post acquisition earnings and decreased by post acquisition losses and dividends or distributions received.

Stock option plan

IROC Systems Corp. has a stock option plan in place for directors, officers, and key employees. No compensation expense is recognized for these plans when stock or stock options are issued. Any consideration received on exercise of stock options or on the issuance of stock is credited to share capital.

Future income taxes

The Corporation follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized.

Financial instruments

The Corporation, as part of its operations, has a number of financial instruments. It is management's opinion that the Corporation is not exposed to significant interest or currency risks arising from these financial instruments.

The fair values of cash, marketable securities, accounts receivable, advances to partnership, lease receivable, bank indebtedness, accounts payable and amounts payable to shareholders approximate their carrying values because of the short maturity of these instruments. The fair values of the Corporation's long-term debt instruments have not been determined since it was not possible within the constraints of timeliness or cost to do so with sufficient reliability.

Since the Corporation's incremental borrowing rate is higher than the rate on one of the capital leases, the Corporation would incur a significant discount if it were to replace the existing debt with new debt. It is management's intention not to replace or refinance the existing debt prior to its maturity.

The majority of the Corporation's clients are in the oil and gas industry and, as a result, the Corporation is exposed to the credit risks of that industry. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist primarily of trade accounts receivable and advances to the partnership. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry.

2. Accounts policies (continued)

Research and development

Research and development costs are expensed as incurred. Research and development costs are reduced by related government assistance and tax incentives. Estimated recoverable amounts are accrued when management is reasonably assured that the related expenditures will be deemed eligible by the taxation authorities. Actual recoverable amounts may differ materially from these estimates.

Measurement uncertainty

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts in these financial statements. The significant area of judgment affecting these financial statements is management's assessment of project eligibility, and estimation of recoverable amounts for scientific research expenditures and investment tax credits refundable, and the estimated useful life of capital assets. Included in accounts receivable is an estimate for uncollectible amounts. Actual results may differ materially from these estimates.

Income taxes

Included in income taxes recoverable is management's best estimate of research and development investment tax credits refundable. Management's assessment of project eligibility and estimation of recoverable amounts is subject to review and acceptance by the income tax authorities. Should they not agree with the determination made by the Corporation, material adjustments to net income and income taxes recoverable could be necessary. Such adjustments, which are not anticipated, will be recognized in the financial statements of the period in which they become known.

3. Marketable securities

	<i>2001</i>	<i>2000</i>
T-Bill fund	-	60,296
Limited partnership units	-	10,000
Money market fund	-	41,504
Bonds	-	334,012
Equities	6,758	457,949
	6,758	903,761

Market value at December 31, 2001 was \$6,758 (2000 - \$910,823).

IROC Systems Corp.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

4. Capital assets

	<i>2001</i>		<i>2000</i>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	412,401	-	280,074	-
Building	1,307,518	52,301	83,378	10,744
Computer hardware	21,817	10,193	10,230	5,212
Equipment	1,168,329	341,140	744,498	137,037
Fence	-	-	2,114	1,183
Leaseholds	2,465	493	-	-
Trailers	887,123	312,220	547,880	229,997
Vehicles	193,551	103,096	274,628	111,102
	3,993,204	819,443	1,942,802	495,275
Vehicles under capital lease	172,128	65,097	170,124	38,453
Trailer under capital lease	347,704	104,522	-	-
Computer hardware under capital lease	20,320	6,096	-	-
	540,152	175,715	170,124	38,453
	4,533,356	995,158	2,112,926	533,728
Net Book Value		3,538,198		1,579,198

During 2000, no amortization was recognized on \$273,015 of equipment and \$107,271 of safety trailers that were purchased during 2000, as they were not in use prior to December 31, 2000.

During the current period, capital assets were acquired at an aggregate cost of \$3,172,420 (2000 - \$1,398,745) of which \$246,498 (2000 - \$170,072) were acquired by means of capital leases and Nil (2000 - \$37,336) were acquired by means of a finance contract.

5. Lease receivable

	<i>2001</i>	<i>2000</i>
Lease receivable in monthly installments of \$1,200, unsecured, non-interest bearing, due October 2002	10,800	26,400
Less current portion	10,800	14,400
	-	12,000

IROC Systems Corp.
Notes to the Consolidated Financial Statements
December 31, 2001 and 2000

6. Goodwill

	<i>2001</i>		<i>2000</i>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Goodwill	-	-	60,000	7,000
Net Book Value		-		53,000

Goodwill arose from the acquisition of the operating assets of Elite Trucking and Hotshot Ltd. During the year the Corporation ceased its trucking and hotshot operations. As a result, the unamortized value of the goodwill of \$53,000 was written off during the year (Note 13).

7. Investment in partnership

During the year the Corporation entered into an agreement with 4859 Northwest Territories Ltd. to form a Partnership, named IROC NWT Limited Partnership. The Corporation holds a 48% interest in IROC NWT Limited Partnership. The corporation also holds 49% of the outstanding shares of IROC Systems (NWT) Corp., which in turn has a 1% interest in IROC NWT Limited Partnership. This company acts as the general partner for the partnership. The investment consists of the following:

	<i>2001</i>	<i>2000</i>
Contributions to partnership	48	-
Equity in loss of partnership	(47,282)	-
Shares of IROC Systems (NWT) Corp.	49	-
Advances to IROC Systems (NWT) Corp.	115,539	-
	68,354	-

The amount due from IROC Systems (NWT) Corp. is due on demand, secured by a promissory note, is non-interest bearing and is expected to be repaid within the next fiscal year.

Separate audited financial statements have been prepared for the partnership. A summary of these financial statements is as follows:

	<i>2001</i>	<i>2000</i>
Total assets	90,928	-
Total liabilities	72,847	-
Total partners' capital	18,081	-
Total revenue	47,225	-
Total expenses	144,732	-

8. Bank indebtedness

	2001	2000
Operating line of credit, with a maximum of \$500,000, bearing interest at prime plus 1%, secured by a collateral mortgage, general security agreement and assignment of all patents and trade marks.	177,579	-
Demand loan, bearing interest at prime, requiring monthly installments of interest only.	-	230,000
Outstanding cheques	48,868	-
	226,447	230,000

The corporation is required to meet certain debt covenants. At December 31, 2001, the Corporation was in violation of one of its debt covenants (Note 9).

9. Long term debt

	2001	2000
Finance contract repayable in monthly installments of \$964, including interest at 1.9%.	-	5,938
Finance contract repayable in monthly installments of \$778, including interest at 4.8%.	-	36,694
Demand loan repayable in monthly installments of \$5,835, plus interest at prime plus 1.5%, due July 2006, secured by a promissory note, a general security agreement including specific charge over trailers with a carrying value of \$720,607, and assignment of all patents and trademarks.	303,320	-
	303,320	42,632
Less current portion	70,020	13,848
	233,300	28,784

Estimated principal repayments on long term debt for the next five years are as follows:

2002	70,020
2003	70,020
2004	70,020
2005	70,020
2006	23,240

As part of the Corporation's credit agreement covering its operating line of credit and its demand loan, the Corporation is required to meet the following debt covenants:

1. working capital not less than 1:1
2. debt to equity ratio not to exceed 0.75:1

At December 31, 2001, the Corporation was in violation of the debt covenant relating to minimum working capital. As of January 31, 2002, the Corporation was no longer in violation of any of its debt covenants as a result of the sale of the land and building (Note 18).

10. Obligations under capital lease

	2001	2000
Capital leases repayable in monthly installments of \$11,204, including interest at rates ranging from 3.3% to 10.9%, due from June 2004 to August 2005, secured by trailers and vehicles with a carrying value of \$350,213.	447,143	111,922
Capital leases repayable in monthly installments of \$689, including interest at 14.69% due February 2004, secured by equipment with a carrying value of \$14,224.	15,330	-
	462,473	111,922
Less current portion	104,276	21,697
	358,197	90,225

Estimated minimum lease payments related to obligations under capital lease for the next four years are as follows:

2002	142,715
2003	142,715
2004	164,782
2005	<u>97,045</u>
Total minimum lease payments	547,257
Less imputed interest	<u>84,784</u>
Balance of obligation	<u>462,473</u>

Included in interest on long term debt is \$21,135 (2000 - \$2,863) of interest on capital leases.

11. Share capital

a) Authorized:
 Unlimited number of common voting shares

b) Issued:

	<u>Number</u>	<u>Amount</u>
Balance, March 31, 2000	8,526,000	1,563,208
Issued following the major transaction and amalgamation with Advanced	800,000	200,000
Issued for cash	1,000,000	500,000
Options exercised for cash	20,000	10,000
Share issuance costs (net of future income taxes of \$77,600)	-	(131,166)
	10,346,000	2,142,042
Balance, December 31, 2000		
Options exercised for cash	34,000	17,000
Private placement	166,666	100,000
Share issuance costs (net of future income taxes of \$2,323)	-	(3,852)
	10,546,666	2,255,190

11. Share capital (continued)

Share capital has been restated to reflect a consolidation of the issued and outstanding shares of the Corporation on a 2 for 1 basis in the prior period.

On July 12, 2000, the Corporation completed a public offering of 2,000,000 pre-consolidation shares at \$0.25 per share. The Corporation also entered into an Agency Agreement relating to this offering of common shares whereby the agent received 9% of the gross proceeds of the offering and option to acquire an additional 160,000 pre-consolidation shares at \$0.25 per share.

On November 23, 2001, the Corporation completed a private placement for 166,666 shares at \$0.60 per share, the share price agreed upon by the parties acting at arms length. The shares were issued in consideration of reduced lease payments for a period of five years on a property lease held by the Corporation. This amount has been accounted for as prepaid lease costs and is being amortized over five years.

c) Stock Options

The Corporation has established a stock option plan for its directors, officers and key employees. During the current period no stock options issued pursuant to the plan were exercised.

Pursuant to an agency agreement dated June 13, 2000, between the Corporation and Pacific International Securities Inc. (Pacific), the Corporation granted Pacific an option to purchase up to 80,000 (post-consolidation) common shares. During the current period Pacific exercised 34,000 (2000 – 12,500) options at \$0.50 (2000 - \$0.50) per share.

At the end of the period there were outstanding options to purchase 678,500 shares (2000 – 227,500).

Exercise prices and expiry dates of the outstanding options are as follows:

	<u>Number of Options</u>	<u>Date Options Expire</u>	<u>Exercise Price Per Share</u>
	110,000	July 12, 2005	\$0.50
	375,000	January 15, 2006	\$0.65
	<u>160,000</u>	April 23, 2006	\$0.80
Directors, officers and key employees	645,000		
Agent	<u>33,500</u>	January 20, 2002	\$0.50
Total options	<u>678,500</u>		

A summary of the vesting of stock options outstanding at December 31, 2001 is presented below. There were no vesting terms on the stock options outstanding at December 31, 2000.

<u>Number of Options</u>	<u>Date Options Issued</u>	<u>Vesting</u>
100,000	January 15, 2001	quarterly over two years
75,000	January 15, 2001	semi-annually over two years
70,000	January 15, 2001	annually over two years
150,000	January 15, 2001	quarterly over two years
160,000	April 23, 2001	annually over two years

11. Share capital (continued)

A summary of the status of the Corporation's stock option plans as of December 31, 2001 and 2000, and changes during the periods ending on those dates is presented below.

	<u>Shares</u>	2001 <u>Weighted-Average Exercise Price</u>	<u>Shares</u>	2000 <u>Weighted-Average Exercise Price</u>
Outstanding at beginning of period	227,500	0.50	-	0.50
Granted	1,420,000	0.67	260,000	0.50
Exercised	34,000	0.50	32,500	0.50
Forfeited	<u>935,000</u>	0.64	<u>-</u>	-
Outstanding at end of period	<u>678,500</u>	0.65	<u>227,500</u>	0.50

	Range of Exercise <u>Prices</u>	2001 Weighted-Average Remaining <u>Contractual Life</u>	Range of Exercise <u>Prices</u>	2000 Weighted-Average Remaining <u>Contractual Life</u>
	\$0.50 - \$0.80	3.8 years	\$0.50	3.5 years

d) Warrants

On November 30, 2000, the Corporation issued 1,563,000 warrants as partial consideration for the acquisition of IROC (Note 1). Each warrant is exercisable into one common share prior to June 30, 2002 at an exercise price of \$1. At December 31, 2001, there were 1,563,000 warrants outstanding.

e) Escrowed Shares

1,751,666 shares are currently held in escrow. Dates of release and number of shares are as follows:

<u>Release Date</u>	<u>Number of Shares</u>
June 18, 2002	1,405,000
November 1, 2002	33,334
December 18, 2002	60,000
June 18, 2003	60,000
November 1, 2003	33,333
December 18, 2003	60,000
November 1, 2004	33,333
November 1, 2005	33,333
November 1, 2006	33,333

1,751,666

12. Income taxes (recoverable)

	<i>2001</i>	<i>2000</i>
Current	(4,442)	(4,789)
Future	(24,600)	(39,126)
	<u>(29,042)</u>	<u>(43,915)</u>

12. Income taxes (recoverable) (continued)

a) The effective tax rate differs from Canadian statutory rates for the following reasons:

	2001	2000
Combined basic tax rates	41.8%	43.6%
Expected taxes (recovered) – continuing operations	(40,834)	(52,218)
Reassessment of prior year	4,442	8,045
Other	7,350	258
	(29,042)	(43,915)

b) Major components of income tax expense (recovery)

	2001	2000
Current tax expense (recovery)	(4,442)	(4,789)
Future income tax expense (recovery) related to the origin and reversal of temporary differences	3,606	(5,271)
Future income tax recovery related to losses carried forward	(28,206)	(33,855)
	(29,042)	(43,915)

The significant temporary differences giving rise to the corporation's future net income tax assets of \$172,000 (2000 - \$122,600) are detailed as follows:

	2001	2000
Marketable securities	3,000	8,000
Research and development tax credits receivable	-	(20,000)
Capital assets	156,000	38,000
Goodwill	37,000	-
Share issuance costs	155,000	178,000
	351,000	204,000
Losses carried forward	102,000	78,000
	453,000	282,000

c) The Corporation has accumulated income tax losses available to reduce taxable income in future years. These losses, if unused, expire as follows:

2006	20,000
2007	<u>82,000</u>
	<u>102,000</u>

The future tax asset related to these losses has been recognized in these financial statements.

13. Discontinued operations

On October 31, 2001, the Company ceased the operations of its hotshot and trucking services. For reporting purposes, the results of operations and cash flows from operating activities of the hotshot and trucking services business have been disclosed separately from those of continuing operations for the periods presented.

The results from discontinued operations are as follows:

	<i>2001</i>	<i>2000</i>
Revenue	285,381	308,056
Net loss to measurement date before income taxes	(89,663)	(53,133)
Income taxes recovered	(22,477)	(20,874)
<hr/>		
Net loss to measurement date	(67,186)	(32,259)

Write-off of goodwill included in net loss to measurement date	(53,000)	-
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Included in net loss to measurement date is \$26,925 (2000 - \$45,328) of amortization on capital assets.

Assets and liabilities presented in the consolidated balance sheets include the following assets and liabilities of discontinued operations:

	<i>2001</i>	<i>2000</i>
Current assets	-	60,824
Non-current assets	64,811	156,482
Current liabilities	54	5,762
Non-current liabilities	5,176	111,923

The Corporation intends to sell the non-current assets. The proceeds of this sale will be used to settle the non-current liabilities as they relate to the financing of these assets. The current liabilities have been integrated into the Corporation subsequent to year end.

The cash flows from discontinued operations are as follows:

	<i>2001</i>	<i>2000</i>
Cash provided by (used for) the following activities:		
Operations	(17,550)	93,894
Financing	(66,646)	(38,263)
Investing	60,000	(51,624)
<hr/>		
Increase (decrease) in cash and cash equivalents	(24,196)	4,007

14. Loss per share

Loss per share has been calculated using the net loss, divided by the weighted average number of shares outstanding during the year of 10,356,814 (2000 - 7,590,162). Loss per share on loss from discontinued operations is \$0.006 (2000 - \$0.004). The diluted loss per share for the current period has not been calculated since the result would be anti-dilutive.

15. Statements of cash flows

- a) Cash and cash equivalents consist of cash on hand and balances with banks and investments in T-Bill funds, money market funds, bond funds, and equity funds. Investments included as cash equivalents are those management intended to liquidate within three months of the end of the period. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	<i>2001</i>	<i>2000</i>
Cash on hand and balances with banks	185	28,814
Marketable securities	-	893,761
	185	922,575

- b) During the period, the Corporation had cash flows arising from interest and income taxes paid and received as follows:

	<i>2001</i>	<i>2000</i>
Interest paid	51,345	7,109
Interest received	19,502	32,347
Income taxes paid (received)	(156,523)	19,157

16. Related party transactions

During the current period the Corporation paid shareholders of the Corporation \$53,500 (2000 - \$45,000) for rental of shop premises, which was measured at the exchange amount, which is the amount agreed to by the related parties.

During the current period the Corporation sold a building with a carrying value of \$72,634 to shareholders of the Corporation for \$72,634, which was measured at the carrying amount.

17. Commitments

The Corporation has entered into operating leases for equipment and real estate with estimated minimum annual payments as follows:

2002	436,625
2003	370,619
2004	363,380
2005	306,317
2006	305,777

The terms of these leases end between March 2002 and October 2011.

18. Subsequent event

On January 1, 2002 the company sold building and property with a carrying value of \$1,872,826 for \$1,900,000 and entered into a lease agreement on the same building. The lease requires minimum rent of \$228,014 per annum for a term of five years.

Included in accounts payable is an amount of \$662,765 relating to the construction of the above mentioned building. Upon the sale of the building, a portion of the proceeds was used to settle this amount. After paying all liabilities relating to the construction of the building, the net effect of the sale of the building was to increase working capital by approximately \$970,000.

19. Comparatives

Comparative figures have been reclassified to conform to the presentation adopted for the current period.

IROC Systems Corp.
Consolidated Schedules of Direct Costs and General and Administrative Expenses
For the periods ended December 31

	<i>12 Months 2001</i>	<i>9 Months 2000</i>
<u>Direct Costs</u>		
Consulting fees	686,692	116,804
Equipment purchased for resale	260,268	159,025
Equipment rental	194,615	5,391
Interest on long term debt	21,314	491
Repairs and maintenance	39,018	12,998
Supplies	66,971	19,041
Travel and subsistence	222,493	64,322
Telephone	37,337	16,609
Vehicle expenses	101,495	21,678
Wages	513,666	100,753
	2,143,869	517,112
<u>General and Administrative Expenses</u>		
Advertising and promotion	45,614	51,683
Amortization	679,852	167,487
Bad debts	6,117	7,658
Insurance, licenses, and taxes	55,942	13,210
Interest and bank charges	11,800	1,512
Interest on long term debt	18,242	-
Office	27,537	3,663
Professional fees	143,633	23,491
Rental	101,899	47,538
Repairs and maintenance	645	-
Salaries, wages and benefits	172,680	-
Sales and marketing	84,895	60,275
Telephone, fax and internet	10,924	-
Travel and entertainment	22,692	-
Utilities	9,716	5,766
	1,392,188	382,283